

# E-Commerce and Small Tourism Firms

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## INTRODUCTION

Today's networked economy is a strategic combination of many factors, with electronic platforms and relationships underpinning competitive advantage. Enabled and driven by information and communication technologies (ICT) and connectivity, the networked economy is challenging the fundamental bases of established government frameworks, conventional business practices, and traditional marketing disciplines. To achieve business success in this techno-economic paradigm requires new ways of thinking for all.

This article examines regional development trends, such as the growing importance of connectivity, electronic-commerce (e-commerce), and industry networks for global competitive advantage. Within that context, it discusses issues facing small tourism firms in becoming part of the networked economy.

## REGIONAL NETWORKS

A consistent pattern in today's economic business process is collaboration between firms, whereby emphasis is placed on networking, knowledge sharing, and cooperation rather than competition (Asheim, 2001). The adoption and diffusion of ICT and the Internet are integral components in today's business processes, as connectivity has increased our ability to connect and communicate with others, regardless of whether they are located locally, regionally, nationally, or across the globe.

Research indicates that network building is not only a major new source of competitive advantage for any company, but also a crucial asset to business survival and an essential global and, indeed, regional development requirement (Porter, 1998). Because the processes of ICT-based information seeking, information distribution, and knowledge sharing are interactive, it is believed that a firm's information channels or interpersonal networks play an important role.

In recent times, regional development policy has undergone a paradigm shift from an exogenous or external focus to an endogenous or internal and relational network one (Storper, 1997). Networking, community building, and learning are portrayed as pivotal linkages for regional growth, whereby policy makers concerned with the per-

formance of regional economies are seeking to foster a networked community culture (Asheim, 2001). In geographic terms, networks can operate on international, national, regional, and local levels. Examples of this network-building trend may be found internationally on the European Commission and the APEC action agendas (APEC, 2001). The trend is also reflected in Australian regional development policy, which, in taking its cues from global trends in regional development, portrays connectivity, networking, industry clustering, regional specialization, and capacity building as pivotal for regional growth (ALGA, 2002).

As such, network formation is not a novel or emerging concept but rather a recycled notion caught up in a new policy wave. Theoretical discussions on interfirm organization can be found as far back as 1960 (Philips, 1960), although it would take several decades more until Miles and Snow (1992) identified a significant movement toward the so-called network form. Since then, myriad network structures and traits have been discussed in the literature, including firm interdependence, trust between network partners, pitfalls of network alliances, and issues surrounding change. The latter is of particular relevance in these rapidly changing times. Business networks are subject to external changes, such as a transformation in the economic and technological climate, and internal changes, such as competition and issues of power and trust (Håkansson, 1995).

Connectivity and the Internet have added new dimensions to the concept of networked firms. The advent of connectivity has boosted conventional reasons for interfirm networking, as the technology-enabled landscape provides the capacity for firms to collaborate with former competitors and potentially achieve "competitive co-evolution, enhanced by digital platform features" (Ordanini, 2001, p. 282). The concept of clustering, another form of network formation, has gained new prominence, as it can help create critical mass and facilitate the knowledge-based infrastructure needed for competitive advantage. Porter (1998) discusses competitive advantage as being created and sustained through a highly localized process and ascribes enduring competitive advantage in a global economy to local knowledge, relationships, and motivation that cannot be duplicated by global partnering. Thus, as a result of the networked economy, it may be said that organizational change can be expected

throughout regions and across a number of industries, and especially in information-based industries such as the tourism industry.

## **TOURISM AND TECHNOLOGY**

Being among the two largest, most rapidly growing, and most dynamic industries, tourism and technology have become inextricably linked. Together, they are changing the way society operates (Werthner & Klein, 1999). The tourism industry has always relied heavily on information. In fact, until a tourist gets to his or her chosen destination, tourism *is* information rather than a physical product. While tourism services are produced and consumed in a physical world set in a regional or local context, purchase of a tourism product is generally based on information received through direct or intermediary market channels, prior knowledge, word of mouth, and perceptions of trust and service quality. As the nature of the tourism product is information-based, it is a search product that is evaluated by perusing product-related information. Being dependent on effective information flows makes the tourism product a complex one, as it is "...almost entirely dependent upon representations (such as pictures in brochures) and descriptions to help consumers make a purchase decision" (Laubenheimer, 1999, p. 279).

Tourism intermediaries typically fulfill functions such as presorting and structuring tourism product information, providing a place for the supply and demand sides to meet, and reducing uncertainty. Travel agents have traditionally been high-profile intermediaries between travel suppliers and consumers, selling the tourism product, for which they derive a sales commission, to customers. Apart from their customer service role, a travel agent's product knowledge and expertise is the value added for the customer. Destination marketing organizations, such as regional and local tourist information centers, also perform an intermediary (booking) role, most often between consumers and tourism small to medium-size enterprises (SMEs) (Wynne, 2001).

Now information technology and the Internet enter the picture. The Internet has the ability to provide a highly suitable and major new market channel for tourist products, because it can display information and pictures. The travel and tourism sector to a large degree depends on business-to-consumer (B2C) e-commerce activity. The Internet can create a direct link between a worldwide supplier community and equally dispersed consumers. Speed is also crucial in the travel industry, and the Internet can provide an instant confirmation response to an inquiry such as flight or room availability. The influence of ICT on tourism product perusal and purchase is

evident in the proliferation of travel/tourism sites on the Web (Bernstein, 1999). A search engine query on travel and tourism will return an incredible 15 million results, which includes information on anything from outback tours to deep sea adventures to bed-and-breakfast stays around the globe. To date, the sale of online airline tickets constitutes the largest part of e-commerce-related travel business. In North America alone, travel purchases before 2000 accounted for US\$4 billion in sales, with forecasts for 2003 ranging up to US\$29 billion (Pappas, 2001).

With increasing ICT literacy of prospective customers, consumer expectation of easy access to tourism product is rising. Such consumer expectations are likely to increase pressure on product providers to either offer instantaneous product information satisfaction or lose potential customers (Buhalis & Main, 1998). The emergence of electronic markets and the increased ICT literacy of prospective customers, who now have the opportunity to bypass intermediaries in the travel value chain by booking directly on the Web, have kindled questions about the necessity and ability of small tourism firms to become part of the networked economy.

## **REGIONAL TOURISM SMEs**

In many parts of the world, SMEs and micro tourism enterprises make a substantial contribution to regional economies. In this context, tourism SMEs are an important instrument for raising the profile of a region. At the same time, the requirements of the globalized economy raise the bar for tourism SMEs in all regions, with expectations toward a high capacity for ICT innovation, even on a relatively small scale (ALGA, 2002).

While connectivity has the potential to increase regionally-based tourism SMEs' visibility in the marketplace, small tourism enterprises have been facing difficulties embracing ICT and competing with their larger counterparts. Small tourism firms, much like other small firms, often lack the time, skills, and resources needed to implement ICT (Buhalis & Main, 1998). Micro and small tourism enterprises generally consider themselves outside the tourism industry, despite the fact that most of their customers are tourists (Evans, 2001). Their size being their main disadvantage, tourism SMEs tend to be overdependent on intermediaries for product marketing and distribution and, therefore, have limited bargaining power in the distribution channel (Werthner & Klein, 1999). Other barriers may include technology itself, where the lifestyle choice of owner-operators often entails a negative attitude toward ICT (Evans, 2001). Besides, many tourism SMEs are located in peripheral regions where the ICT infrastructure, especially broadband, can still be inadequate or prohibitively expensive due to limited demand

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